

**COMMONWEALTH OF MASSACHUSETTS  
BEFORE THE  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

	)	
Investigation by the Department of	)	
Telecommunications and Energy on its own	)	D.T.E. 02-40
Motion into Default Service.	)	
	)	

**INITIAL COMMENTS OF  
WESTERN MASSACHUSETTS ELECTRIC COMPANY**

On June 21, 2002, the Department of Telecommunications and Energy (“Department”) issued an Order opening a Notice of Inquiry into the provision of default service. Western Massachusetts Electric Company (“WMECO”) respectfully submits the following comments to the Department’s June 21<sup>st</sup> Order.

**The Present Default Service System Benefits WMECO’s Customers**

The present default-service procurement system is working for WMECO's customers. Unlike other Massachusetts customers, WMECO's customers are not seeing below-market standard-offer service rates. WMECO procures both default service and standard-offer service on a competitive basis in the wholesale market. Therefore, for all intents and purposes, WMECO's customers are at March 2005 as far as supply options. WMECO's customers basically have two supply options: they can pay a wholesale market price for standard-offer service or default service, or they can go to the competitive marketplace and pay a retail price.

Beginning July 1<sup>st</sup> of this year, pricing for default service and standard-offer service were approximately the same for WMECO's customers. The average default- service price is 4.9 cents per kilowatt-hour until the end of this year, and the standard-offer price is 4.8 cents until the end of this year.

WMECO's experience has been that vibrant wholesale market competition exists for providing both default service and standard-offer service. As part of WMECO's solicitation process, an independent evaluator reviews the process. For WMECO's latest solicitation and procurement which occurred this spring for default service beginning July 1<sup>st</sup>, WMECO had eight suppliers submitting bids to provide all or parts of the default-service load. The independent evaluator found that it resulted in a competitive-bidding process which resulted in reasonable prices for those customers.

### **The Price Components to be Included in Default Service Rates**

In its May 12, 2002 Order on default service (D.T.E. 99-60-A), the Department stated that the inclusion of the distribution company's administrative costs will ensure that all costs of providing default service are included in the default service price seen by retail customers.

WMECO supports including administrative costs as part of the default service rate in the future; however, there is one caveat: when figuring these costs, no full-blown rate-case proceeding should be triggered. In the initial D.T.E. 99-60 proceeding, WMECO supported the inclusion of administrative costs and suggested an adjuster mechanism methodology that included costs without performing a full rate case.

It appears that the inclusion of an adder for procuring default service has been successful in Massachusetts without the need for a rate proceeding. Fitchburg Gas and Electric

Company (“Fitchburg”) used a third party, Enermetrix, to solicit bids for Fitchburg’s default-service requirements for the June 1, 2002 to November 30, 2002 period. On March 4, 2002, Enermetrix issued a request for proposals to potential bidders via e-mail. On March 5, 2002, Enermetrix sent an e-mail message to potential bidders stating, “As an additional piece of information, **offers should include the Enermetrix service fee of 0.02 cents/kWh for each of the two customer groups**. Please feel free to call or e-mail w/questions. Sorry for any confusion...” (emphasis added). Therefore, it appears that Fitchburg’s default-service rates effective for this period include an administrative adder for Enermetrix. WMECO supports the inclusion of these types of adders for distribution companies that directly procure default service on behalf of their customers.

#### **Default Service Pricing Options**

WMECO embraces maintaining the current default service fixed and variable pricing options. This continues to allow default-service prices to remain constant for periods of up to six months, helps minimize the potential for customer confusion, and addresses the concern that competitive suppliers do not shift their customers to default service during peak months when the default-service prices are lower than the prices available in the wholesale energy market.

WMECO has previously procured default-service supply for a one-year period, pricing it for two fixed six-month periods. It gave customers the forward price as much as the current rules allow, which is for a year, and it met the requirement of the fixed price for six months. This also matched the year-long price signal that standard-offer customers received.

WMECO does not object to having a one-year fixed price option, if it is perceived as beneficial for customers making choices. A one-year fixed price option may also help reduce administrative costs, ultimately reducing the costs of default-service prices.

### **Procurement Schedules and Strategies**

WMECO is concerned that some proposals that break the default-service load into separate solicitation segments will have an adverse impact. WMECO's default-service load is relatively small and by requiring even smaller solicitations may actually disrupt the market and harm customers, rather than improve the market. In the past, WMECO has been able to attract a single supplier to serve its default-service load with different pricing for the four subgroups, large commercial and industrial ("C&I"), small C&I, residential, and street lighting. This has the effect of spreading some of the risks inherent in various subgroups, such as migration of the large C&I customers or the unattractiveness of only serving street-light load which is very small at this point in time. If the WMECO load becomes too small, it may be that suppliers will choose not to serve part of that load.

A second reason that WMECO would like to maintain its current procurement schedule and strategy is that the New England wholesale power marketplace is currently in a state of flux. Many wholesale power marketing entities are revisiting their business models and making a determination to leave the wholesale power marketing business in the Northeast. WMECO is concerned about any new Department requirements that may make our retail load more unattractive to serve.

Some proposals are advocating that default-service load should only be provided by licensed-retail suppliers. Many of the wholesale marketing entities that WMECO interacts with

indicate that they do not want to become licensed-retail suppliers and regulated by the Department in order to serve our retail load. Requirements like this may discourage wholesale power marketing entities from bidding on our retail load. WMECO is concerned about any possible changes to default service that will place too many demands and new requirements on wholesale marketing entities who want to serve default-service and standard-offer loads.

### **The Distribution Company Should Serve as the Provider of Last Resort**

WMECO supports keeping the last-resort function with the distribution company, as long as it is compensated for its efforts, because it is working well, especially for small customers. This last-resort function can provide benefits to two other groups that are important elements of a viable, competitive energy marketplace. The first group is retail suppliers who have stated they have experienced some problems at times competing against the wholesale price. The second group is distribution company investors.

Under the current program, default-service customers are essentially paying a wholesale price for a retail service. When given a choice, it is unlikely that customers would choose to pay retail over wholesale. This system generally keeps the distribution company in the position of providing retail service without being compensated to do it. As a result of restructuring and generation asset divestiture, distribution company investment, and the resulting rate base on which earnings are derived, has been cut in half or more for utilities like WMECO. The combined effect of lost rate base and lack of earnings potential on supplying generation services to default-service customers has significantly harmed utility investors.

One alternative, to put things on a more level playing field, is having distribution companies collect a service fee on the energy that they provide as the default-service provider. This would provide three benefits.

First, it would compensate the distribution company for its efforts in securing default service. Whether that is done through an adder or an incentive or other mechanism, it would be beneficial to the market as a whole.

Second, the default-service price will better mimic a retail price, so that both the distribution company and the competitive retail supplier are on a more equal footing. In effect, customers would then be comparing a retail-type price to a retail price.

And lastly, it eliminates the market distortion inherent in the wholesale-price option for retail customers. Thus, it helps put default-service pricing on a retail basis.

WMECO appreciates the opportunity to submit these comments and anticipates participating fully in this proceeding.